

## Message Text

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ORIGIN ARA-17

INFO OCT-01 ADP-00 EB-11 COME-00 INT-08 OEP-01 AID-20

CIAE-00 FRB-02 INR-09 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 NSC-10

SS-14 H-02 RSR-01 INRE-00 /127 R

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ARA/ CEN: MR. PEZZULLO

EB/ ORF/ FSE: MR. WHITMAN ( DRAFT)

COMMERCE: MRS. GRIMM ( SUBS)

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P R 151359 Z MAR 73

FM SECSTATE WASHDC

TO AMEMBASSY SAN SALVADOR PRIORITY

INFO AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMCONSUL BELIZE

C O N F I D E N T I A L STATE 047731

E. O. 11652: GDS

TAGS: ENGR, BBAK, ES, NU, BH

SUBJECT: PETROLEUM; PROPOSED REFINERY IN EL SALVADOR

REFERENCE: A) SAN SALVADOR 0741; B) SAN SALVADOR 0910

1. BASED ON THE INFORMATION CONTAINED IN REFTEL A), DEPT. NOT IN A POSITION TO MAKE A JUDGMENT ON THE FEASIBILITY OR MERITS OF THE PROPOSED REFINERY PROJECT IN EL SALVADOR. TO EVALUATE THE PROJECT, WE WOULD NEED MORE PRECISE DATA ON THE PROPOSED PURCHASE COSTS OF CRUDES FROM VARIOUS SOURCES, SHIPPING COSTS PROJECTED TO ACAJUTLA, ESTIMATED OPERATING COSTS OF THE SALVADORAN REFINERY, PROSPECTIVE TAX BENEFITS FROM GOES, AND DELIVERED PRICES OF THE NAPHTHA AND FUEL OIL ON THE U. S. MARKET. EVEN WITH THIS INFORMA-  
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TION, IT WOULD BE DIFFICULT TO EVALUATE THE PROJECT WITHOUT TURNING THE DATA OVER TO INDUSTRY EXPERTS, THUS POSSIBLY COMPROMISING THE PROPRIETARY NATURE OF THE INFORMATION. WE WOULD ASSUME THAT, BEFORE DISCUSSING A PROJECT OF THIS MAGNITUDE WITH THE GOES, CLEMENTS AND ASSOCIATES UNDERTOOK COMPREHENSIVE COST/ PRICE STUDIES. IF EMBASSY CAN SECURE COPIES OF SUCH STUDIES, WE WOULD BE GLAD TO ASSESS THIS ASPECT OF THE PROJECT TO THE EXTENT POSSIBLE.

2. EFFORTS TO ESTABLISH BONAFIDES OF MR. CLEMENTS LAST YEAR IN CONNECTION WITH PROPOSED MONKEY POINT PROJECT IN NICARAGUA WERE INCONCLUSIVE. 1971 BANK CHECK REPORTED CLEMENTS AS " SUBSTANTIAL CUSTOMER; INDEPENDENT OIL/ GAS OPERATOR OF SOME SUBSTANCE." RECENT ATTEMPT TO UPDATE THIS INFORMATION YIELDED ONLY PROMISE FROM MR. BAKER, PRESIDENT OF GULFCOAST NATIONAL BANK ( HOUSTON), TO SUPPLY WRITTEN " LETTER OF RECOMMENDATION." BUSINESS DIRECTORIES HAVE NO LISTING FOR " JAMES A. CLEMENTS & ASSOCIATES."

3. THIS IS THE THIRD TIME CLEMENTS HAS ADVANCED SOME VARIATION OF HIS OIL REFINERY PROJECT IN THE AREA. SIMILAR, SMALLER- SCALE PROJECT WAS PROPOSED BY CLEMENTS FOR BRITISH HONDURAS, ON WHICH TO OUR KNOWLEDGE NO WORK HAS EVER BEEN DONE. MONKEY POINT PROJECT WAS ANNOUNCED IN 1972. AS LATE AS JANUARY 1973, GENERAL SOMOZA REPORTEDLY STATED THAT CONSTRUCTION OF THIS PROJECT WOULD BEGIN BY LATE FEBRUARY, AND NOTED THAT HE DESIRED TO EXPEDITE THE CONSTRUCTION OF THE FACILITY IN ORDER TO PROVIDE EMPLOYMENT FOR THOSE DISPLACED BY THE MANAGUA EARTHQUAKE. WE HAVE NO INFORMATION THAT ANY WORK HAS BEGUN. IT SEEMS STRANGE THAT SOMOZA WOULD NOW BE WILLING TO CONSIDER PARTICIPATION IN A PROJECT LOCATED IN EL SALVADOR.

4. REFERENCES TO THE SOURCES OF FINANCING OF THE PROPOSED PROJECT ( I. E., " A JAPANESE CONCERN, A POWER COMPANY IN WASHINGTON STATE") APPEAR PARTICULARLY FUZZY. EFFORTS TO TRACK DOWN THE ERSTWHILE FINANCIAL SOURCES OF THE MONKEY POINT FACILITY ( THE " MUSLIM FOUNDATION") WERE NOT PRODUCTIVE. FURTHERMORE, THE CHANGE OF SITE FROM THE ATLANTIC COAST OF NICARAGUA TO THE PACIFIC COAST OF EL SALVADOR RAISES QUESTIONS CONCERNING THE PROPOSED SOURCE OF CRUDE OIL TO SUPPORT THE REFINERY.

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5. IN CONCLUSION, GIVEN THE APPARENT GAPS IN OUR KNOWLEDGE ABOUT CLEMENTS AND THIS PROJECT, WE ARE NOT IN A POSITION TO VOUCH FOR THE BONA FIDES OF CLEMENTS & ASSOCIATES. UNDER THE CIRCUMSTANCES, MISSION SHOULD AVOID VOUCHING FOR CLEMENTS IN CONVERSATIONS WITH GOES OFFICIALS.

6. FOR MANAGUA: WE WOULD APPRECIATE YOUR APPRAISAL OF THE STATUS OF THE MONKEY POINT PROJECT, INCLUDING SIZE OF THE PROJECT, DETAILS REGARDING SOURCE OF CRUDE, MARKETS AND FINANCIAL PACKAGE. YOU MIGHT ALSO BE ABLE TO ASCERTAIN WHAT, IF ANY, INTEREST GEN. SOMOZA HAS IN THE SALVADOR PROJECT, AND HOW IT RELATES TO THE MONKEY POINT REFINERY. ROGERS

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